LEGISLATIVE
AUDIT
COMMISSION

Review of
Eastern Illinois University
Year Ended June 30, 2003

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REVIEW: 4202
EASTERN ILLINOIS UNIVERSITY
YEAR ENDED JUNE 30, 2003

FINDINGS/RECOMMENDATIONS - 6

NOT ACCEPTED - 2

PARTIALLY ACCEPTED - 1

ACCEPTED - 3

REPEATED RECOMMENDATIONS - 2

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 7

This review summarizes the audit of Eastern Illinois University for the year ended June 30, 2003, filed with the Legislative Audit Commission March 30, 2004. The auditors performed a financial and compliance audit in accordance with State law, the requirements of the federal Single Audit Act, and OMB Circular A-133. The auditors stated that the financial statements were fairly presented.

Eastern Illinois University is a comprehensive, regional service institution located in Charleston, Illinois. Established in 1895 as a teachers' college, today the University encompasses four colleges and a graduate school. The University's Board of Trustees is appointed by the Governor. Included in the University's Strategic Plan are six goals as listed below:

- To enhance the quality of academic programs.
- To heighten the University's state and national image.
- To increase public and private funding.
- To move expeditiously to address long-deferred maintenance and to develop the campus master plan.
- To increase access and diversity with the student body, faculty, administration and staff.
- To improve overall institutional effectiveness.

Mr. Louis V. Hencken was appointed Interim President in 2001. In 2003, he was awarded a contract as President of the University until 2006. Hencken has served Eastern in a variety of administrative positions for nearly 40 years, first as a graduate assistant, then as assistant director, associate director, and director of Housing, and finally Vice President for Student Affairs.

General Information

The table below describes the net assets and liabilities of the University.

Assets	**FY03**	**FY02**
Total current assets (cash, receivables, inventories, etc)	$ 32,448,844	$ 33,462,689
Total noncurrent assets (endowments, investments, etc)	146,353,081	138,868,311
Total Assets	**$ 178,801,925**	**$ 172,331,000**
Liabilities		
Total current liabilities (acc'ts payable, deferred revenue, etc)	$ 20,322,620	$ 19,679,534
Total noncurrent liabilities (long-term liabilities, loan refunds)	77,714,640	81,529,309
Total Liabilities	**$ 98,037,260**	**$ 101,271,843**
Net Assets		
Invested in capital assets	$ 75,954,810	$ 57,872,994
Restricted (scholarships, dept uses, capital projects, etc)	13,678,269	11,602,958
Unrestricted	(8,868,414)	1,583,205
Total Net Assets	**$ 80,764,665**	**$ 71,059,157**
Total Liabilities and Net Assets	**$ 178,801,925**	**$ 172,331,000**

University employment is described in the following table.

	FY03	***FY02***	***FY01***
Faculty/Administrative	877	840	849
Civil service	832	863	901
Student employees	329	326	322
TOTAL	2,038	2,029	2,072

Full-time equivalent (FTE) enrollment information was:

	Fall 2003	***Fall 2002***	***Fall 2001***
Undergraduate	9,029	8,630	8,878
Graduate	1,124	1,023	956
Extension	1,010	878	803
Total enrollment	**11,163**	**10,531**	**10,637**
Full-time equivalent students	**10,027**	**9,469**	**9,673**
Cost per FTE	**$ 11,145**	**$ 11,572**	**$ 10,545**

Information on classroom utilization, Monday through Friday, for the fall term 2001 is as follows:

	Day	*Evenings*
Classrooms	61.6%	10.5%
Laboratories	37.8%	2.7%

Expenditures from Appropriations

Appendix A presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of $57,898,000 to Eastern Illinois University in FY03. Appropriations were from the following funds: $44,728,800 from the General Revenue Fund; $7,154,200 from the Educational Assistance Fund; $6,000,000 from the Capital Development Fund; and $15,000 from the State College & University Trust. Total expenditures decreased from $57,931,525 in FY02 to $52,207,099 in FY03, a decrease of $5,724,426, or 10%. Expenditures from the Income Fund increased from $29,953,624 in FY02 to $32,337,663, an increase of $2,384,039, or 8%.

Accrued Vacation and Sick Pay

Eastern Illinois University's liability, as of June 30, 2003, was $4,335,068 for accrued vacation, $11,199,915 for accrued sick pay, and $58,706 for compensatory time off, which represents a total liability of $15,593,689. This compares to a total liability of $16,205,547 for one year earlier (June 30, 2002). Compensatory time off is in accordance with University regulations which require the University to compensate its civil service employees for overtime at time and one-half in cash or by allowing compensatory time off, for all time in a work week in excess of the number of hours of work comprising a full-time daily or weekly work schedule. Civil service employees may carry over the unused compensatory time off for one year. At that time the compensatory time off must either be used or the employee is paid in cash.

Revenues, Expenses and Changes in Net Assets

The table appearing in Appendix B presents a statement of revenues, expenses and changes in net assets at June 30, 2003 and 2002. Operating revenues, or those that generally result from exchange transactions, were $87,789,331. The University's operating expenses were $151,058,374. The increase in net assets was $9,705,508.

The chart appearing below shows operating revenues by source for FY03:

Revenues	FY03
Tuition and fees, net	39.0%
Auxiliary enterprises	30.2%
Grants and contracts	12.6%
Other operating revenues	5.9%

The following chart indicates operating expenditures by type for FY03:

Expenditures	FY03
Instruction, student aid, student services	76.1%
Auxiliary enterprises	22.5%
Operations, maintenance, depreciation	18.9%
Institutional support	14.2%
Academic support	11.3%
Public service	6.9%
Research	1.1%

Accounts Receivable

Appendix C provides a summary of the University's accounts receivable for FY03. Not included are student loan accounts receivable and a receivable for $1.9 million for payroll reimbursements due from the State. Total net accounts receivable increased from $6,029,692 in FY02 to $6,863,641 in FY03. The majority of the receivables relate to amounts due for student accounts for tuition and fees and room and board. About $2.3 million is over one year past due, with another $521,606 between 181 days and one year past due.

Property and Equipment

Appendix D summarizes the changes in property and equipment. Net capital assets at the end of FY03 was $134,121,000, compared to a beginning balance of $123,508,000, as of July 1, 2002. Most of the additions were due to building and building improvements. The Fine Arts Building project is to be funded mainly by appropriations from the Capital Development Board.

Foundation Payments to the University

During FY03 and FY02, the University was under contract with the Foundation to provide fund raising services. As provided in the contract, the University advanced $195,246 to the Foundation during the year ended June 30, 2003. Although not required by contract, the Foundation fully repaid the University for these advances using funds considered unrestricted for purposes of the University Guidelines computations. In addition, the

Foundation gave the University funds which are considered restricted. During FY03 the Foundation gave the University a total of $992,984, which compares to $1,883,798 during FY02. The majority of funds provided to the University were restricted as to college, department, scholarship or grant. Appendix F provides a summary of all funds that the Foundation gave the University during the audit period.

Tuition and Fee Waivers

During FY03, Eastern Illinois University granted $3,999,700 in tuition and fee waivers to 2,022 recipients. $1,051,300 was awarded pursuant to specific statutory authority, and $2,948,400 was granted pursuant to University policy. This compares to $3,523,300 in tuition and fee waivers granted one year earlier (FY02). Appendix F presents a summary of tuition waivers for the period under review.

Accountants' Findings and Recommendations

Condensed below are the six findings and recommendations presented in the audit report. There were two repeated recommendations. The following recommendations are classified on the basis of information provided by Jeffrey L. Cooley, Vice President for Business Affairs, Eastern Illinois University, in the original audit report.

Not Accepted

2. Revise existing disaster recovery plan to include provisions for testing the plan and training personnel about system recovery procedures. Explore available alternatives to test disaster recovery of critical applications that would not require a full system shutdown to determine if critical applications can be recovered within the required timeframe. Update plan at least annually. (Repeated-2001)

Findings: The University needs to improve its plan for reacting to computer equipment disasters. The University has approximately $8.5 million of computer equipment located at its Charleston campus. Most University personnel rely on data and automated processes to perform their tasks of servicing students, staff, administration and alumni. Some of the University's critical and financially sensitive applications are the Financial Records System, Grade Processing and Reporting, and Financial Aid Management System.

The University's disaster recovery plan focuses on disaster prevention and an on-site recovery approach to disaster recovery. This approach has been taken because the University could not justify the expense of an alternate back-up site and the concept of establishing operations at another University or CMS was deemed impractical due to the differences and complexities among the various computer configurations.

Not Accepted - continued

The University's disaster recovery plan does not include any provisions for testing the disaster recovery plan nor for training personnel about systems recovery procedures. The University has not conducted any formal tests of the recovery plan to determine whether critical systems could be restored in a reasonable amount of time in order to minimize disruptions to University operations. The University last updated their disaster recovery plan in June 2002.

University management stated that formal testing has not been performed because the University cannot justify the time and expense needed to perform tests that simulate a full system outage.

Response: Not Accepted. The University's Computer Disaster Recovery Plan was re-written due to a major system changeover in August 2002 (FY03). Since the Plan was updated during the fiscal year ending June 30, 2003, the University disagrees that the Plan was out of date. The Plan is currently being updated to meet the recommendation for an annual update to satisfy the fiscal year 2004 audit.

The University also disagrees with the larger finding regarding recovery testing.

The University has demonstrated on several occasions its ability to restore mission-critical services in a reasonable timeframe after a disaster. A "from-scratch" restoration was tested and deployed for production use when Eastern changed mainframe systems in mid-2002. The entire mainframe system was taken down, replaced with a new unit, and brought back to service within six hours over a weekend period.

Another recent example was the recovery from the Blaster and Sobig viruses that shut down enterprise networks all over the world last August. The University demonstrated in real-time how, when the network failed, Eastern could deal with such a disaster by deploying older terminals, setting up these terminals in strategic locations, and continuing the business of the University by registering students for classes, collecting receipts, processing payrolls, and payments.

Data restoration procedures are in place and operator and mainframe personnel are in fact trained and ready to restore data in the event of a disaster. Backup tapes are kept off-site and can be restored onto existing systems when necessary. Various other "mini" disasters happen occasionally during any given year when data is lost due to systems malfunction or human error. Mainframe staff continues routine on-the-job skills training to keep current with the latest backup and storage techniques. Therefore, we feel that no further training in this process is necessary since procedures are practiced during the year.

Eastern, like other Universities, will be moving off the mainframe systems and on to server-based systems in the near future. Server-based systems allow for the placement of distributed servers which are not necessarily concentrated in a single building. Thus, the upcoming server-based architecture will allow for the use of what could be referred to as a "hot site" to be located physically separate from the computer operations building.

Auditors' Comment: Information technology guidance (including the National Institute of Standards and Technology and General Accounting Office) endorse the formal testing of disaster recovery plans. Tests of disaster recovery plans (and the associated documentation of the test results) verify that the plan, procedures, and resources (including staff) provide the capability to recover critical systems within the required timeframe. Unfortunately, recent disasters have confirmed the need for comprehensive disaster recovery plans and tests, as entities that were not prepared experienced significant problems including business failure.

During the course of fieldwork, the University did not provide our auditors with documentation to support its claims that its efforts to recover from failures or upgrades constitute disaster recovery testing. We have previously provided the University with alternatives to a "full-system" test, such as a structured walkthrough test, as a potential alternative to address the finding.

5. Begin the planning process of leasing real property and capital improvements at the earliest available opportunity so that such property may be acquired through statutorily required competition and thus, can be leased in the most economically advantageous manner.

Findings: The University filed emergency purchase affidavits to lease two real estate properties without the benefit of competitive bidding.

The University was scheduled to begin construction of a $46 million Fine Arts Center in the fall of 2002. Due to the nature of the project, the contents of the old building had to be removed and were not available for use beginning with the fall semester of 2002. Therefore, the University needed to secure additional space to hold the faculty and classes that previously were located in the building.

In the spring of 2001 architects were selected and held their unveiling ceremony for the Fine Arts Center in September 2001. Construction was scheduled to begin in the fall of 2002. The University formed a committee that began looking into possible temporary sites for faculty and students in January 2002. By early April 2002, the University had decided on the properties they wanted to pursue and began negotiations with the landlords on the terms of the lease including the renovations required.

Due to the extended negotiations, the University was not able to meet its established timetable of having these buildings ready for use by the beginning of the fall semester of 2002. The signed leases did not specify a date for the lessor to complete the University's requested renovations for intended classroom use. Classes were not reduced, but art and theater projects were delayed.

The University signed two real estate lease agreements on July 3, 2002. One lease was for $254,600 for rent covering 38 months ($6,700 per month), and an additional $153,557 for building renovations. The second lease was for $234,000 for rent covering 39 months ($9,000 per month) and $258,603 for renovations.

Not Accepted - concluded

Statute requires that real property and capital improvement leases be competitively procured. University management did not seriously consider competitively procuring the lease space because they believed the Charleston market was too small to find competitive sources of lease space available.

Response: Not Accepted. The auditors stated that the University filed emergency purchase affidavits without the benefit of competitive bidding. They also state that the Illinois Procurement Code requires real property and capital improvement leases (of all types procured by the University) be competitively procured through a request for information (RFI) process.

However, the Code also states that: "A request for information process need not be used in procuring any of the following leases:….(2) Rent of less than $100,000 per year." (30 ILCS 500/40-15(b)).

The University began the search to find alternative space for departments housed in the Fine Arts Center in November 2000, approximately one month before architects for the expansion/renovation project were selected. In January 2001, at the first meeting with the architect, a project schedule was presented that required the University to vacate the Fine Arts Center by July 2002.

In March 2001, a committee was formed to discuss space and programmatic needs of the departments displaced during the three-year Fine Arts center renovation project. These meetings took place over the next several months while the architects worked on designing the new facility. As a result of the meetings, various vacant properties in the City of Charleston were visited to determine if they could meet the needs of the displaced departments. Using criteria of adequate square footage, parking and proximity to campus, only two off-campus properties were determined to be suitable.

Negotiations with the two owners of the two separate properties began on or about November 1, 2001. Those negotiations included discussions of renovations necessary to accommodate the programmatic needs of the departments (e.g., a performance space for theater productions, adequate ventilation for metallurgy classes, etc.). The negotiations concluded in June 2002, and contracts were signed on July 3, 2002 after approval by the Board of Trustees. The annual rent on the properties amount to $80,400 and $72,000, respectively. These amounts fall within the RFI exception provided by the Code. As such, there is no violation of the Illinois Procurement Code.

To ensure full disclosure of these transactions to the Board of Trustees and to the State, the University chose to file emergency purchase affidavits and post the "emergency" purchases on the Illinois Public Higher Education Procurement Bulletin. The emergency purchase affidavits included the cost to renovate the facilities to accommodate instructional program needs during the time University departments occupy the facilities. However, the renovation costs are not considered capital lease improvements because they do not meet criteria described in Procedure 03.50.60 of the Statewide Accounting Management System manual published by the State of Illinois Office of the Comptroller. The renovation costs were only included on the emergency purchase affidavits for information purposes to ensure full disclosure of the transactions.

The University did not receive any prospective bidder, offeror, vendor or property owner that may be aggrieved as a result of posting the emergency purchases on the Illinois Public Higher Education Procurement Bulletin.

As previously stated, the University began the planning process to relocate departments approximately 21 months in advance of the initial date established to vacate the Fine Arts building. In that time, the University determined the programmatic space needs of the displaced departments, visited numerous alternative sites in the City of Charleston, established and negotiated lease contracts and renovation needs and costs. We believe the University's process was timely, thoughtful and resulted in temporary facilities and locations that service the best interests of the students, University and State of Illinois.

Auditor's Comments: The two leases that are the subject of this finding include $153,557 for building renovations to the 38 month leased property and $258,603 for building renovations of the 39 month leased property. These renovations revert to the lessor at the termination of the lease. The Procurement Code is not clear as to the inclusion or the exclusion of the renovation cost in the calculation of monthly rent as it pertains to competitive bidding requirements, so auditors relied on the practices of the Department of Central Management Services of the State of Illinois (CMS) Real Estate leasing division for some guidance. CMS indicated that they would include such costs in the calculation of rent when determining competitive bidding requirements. Therefore, both of these leases do exceed the $100,000 annual threshold requiring a competitive procurement.

Partially Accepted

1. Strengthen the internal controls over the purchasing/disbursement systems with the following actions:

- **Limit the access to the vendor database by allowing only one employee from accounts payable access to it, and eliminate the right for all accounts payable employees to create purchase orders.**
- **Eliminate the right of purchasing personnel to process invoices for payment.**
- **Limit the access to override the purchasing system budgetary controls to only two to three employees to maintain accountability.**
- **Develop information system controls over changes to purchase order amounts that include documenting a proper audit trail of the changes made.**

Findings: The University is not maintaining adequate internal controls over its purchasing/disbursement system. During testing, the auditors noted the following internal control deficiencies over the purchasing and cash disbursements systems:

- Accounts payable personnel have access to the vendor database on the computer system.

Partially Accepted - concluded

- Accounts payable personnel were given access rights to create a purchase order.
- Purchasing personnel have the right to process invoices for payment.
- Amounts can be changed after purchase orders are entered into the purchasing system and no audit trail is produced that would document the date of, amount of, reason for, authority for and identity of the employee making the change.
- All purchasing personnel have been given access to override the budgetary controls on the purchasing system if a purchase order amount would cause the account to go over budget.

A quality internal control system segregates the duties of employees with access to purchasing from employees with access to assets. Good internal control policies and procedures also require that information system budgetary control features be utilized to prevent purchases from exceeding budgetary limits with the proper authorization. Additionally, information system controls over changes to purchase order amounts should be improved to prevent unauthorized modifications to purchase orders and to provide a proper audit trail of the changes made.

According to University personnel, they have accepted the risks created in the system since the fiscal agent on an account is required to review the financial activity of their account monthly.

Although no improper purchases were noted in current audit testing, failure to establish proper internal controls over the purchasing/disbursement systems creates an opportunity for fraudulent purchases and could lead to the improper and unauthorized use of University assets.

Response: Partially Accepted. The University partially accepts the recommendations to strengthen the internal controls over the purchasing and disbursement systems. The University agrees that accounts payable (AP) employees should not have access to purchasing screens the lead to the creation of a purchase order and have corrected this situation.

The University disagrees with the recommendation to limit the access to the vendor database to only one AP employee. Currently, four AP employees (three clerks and a supervisor) have access to the vendor database. The recommendation that only one AP employee have access does not allow for employees being absent for vacations, illness or other circumstances. The University believes it has restricted employee access to the data base to the minimum number necessary to process payments in a timely manner.

The University disagrees with the auditors' recommendations to eliminate the ability of Purchasing personnel to invoice because adequate compensating controls are in place. Purchasing personnel must acquire fiscal agent approval on all invoices before forwarding them to AP. AP will not complete the payment process and write the check without the fiscal agent's approval. All checks are reviewed and dispersed by AP personnel who do not process invoices or have access to the vendor database.

The University disagrees with limiting override access in budgetary controls to only two or three employees. The University believes there is accountability in place, as Purchasing employees acquire approval from Accounting Office personnel before proceeding with any overrides, and fiscal agents are responsible for monitoring activity in their accounts.

The University further disagrees that there is not a proper audit trail for purchase order changes. The date, amount, and the identity of the employee making the change are recorded on the transaction feed to the automated accounting system. The reason and authority for a change are noted in the purchasing contract file and/or noted in the automated purchasing system.

The University believes there are adequate compensating controls in place to provide reasonable assurance that there are no improper or unauthorized uses of University assets. As noted by the auditor, no improper purchases were noted during the audit.

Auditor's Comments: Our recommendation to limit access to the vendor database to one accounts payable staff person allows the University some flexibility to set up and maintain the vendor database while at the same time limiting the University's exposure presented by this internal control weakness. The University could, when necessary, transfer this access right to another person in the event the designated employee is absent or could request modification or changes to the vendor database through the purchasing department.

Our recommendation regarding purchasing personnel is made with the intent to enhance existing controls. The current system has inherent weaknesses and certain controls in place that, in our view, can be easily circumvented.

The recommendation to limit the access to override the purchasing system budgetary controls to only two to three employees would continue to allow the University's purchasing department certain flexibility to modify system budgetary controls when necessary. Further, such a change, in our view, would both enhance internal controls and increase accountability.

With respect to the recommendation regarding purchase order changes and establishing a proper audit trail, it should be noted that we requested a list of purchase order changes from the University several times during the course of the audit and the University responded that they could not provide such a listing.

In conclusion, we continue to recommend that the university strengthen internal control over the purchasing and accounts payable functions.

Accepted

3. Do not grant access to the Billing/Receivables System (BRS) 434 screen to cashier staff and document review of BRS 434 screen transactions log. (Repeated-2002)

Findings: Adequate internal controls have not been developed to monitor the transactions that can be initiated through the Billing/Receivables System (BRS) 434 Refunds screen. BRS is the critical and comprehensive application for keeping accurate records of student financial obligations. In FY03, EIU billed students $69.2 million. The majority of BRS users have access to the system's refunds screen, including cashier staff. The University grants access to the refunds screen to 115 users who have the right to add charges to student accounts. The refunds screen allows users to credit a student's account for specific charges.

The University currently logs refund transactions processed through screen 434. The logs identify the account number of the user making the change, the student affected, charges affected, dollar amount, and reason, if entered. The University indicated that the Bursar from the cashier's office review the log on a weekly basis. Although the auditors reviewed several of the logs as a part of their audit testing, they noted that there is no documentation of the review process performed by the Bursar.

No improper refunds were noted in current audit testing.

Response: Accepted. Screen access for cashiers has been eliminated and a log has been established to document the review of transactions done on screen 434.

4. Expedite completing the revisions to personnel policies and procedures related to conducting personnel evaluations of civil service employees. Expedite conducting personnel evaluations of all civil service employees, as required by Board policy.

Findings: The University has not conducted annual performance evaluations of its civil service employees. The University's internal audit department noted that the University suspended its evaluation of civil service employees in June 2002 in order to determine a new evaluation process. The guidelines for this new process had not been completed as of November 20, 2003.

According to University personnel, the evaluation process for civil service personnel was suspended due to inequities in the way the various supervisory personnel were administering the evaluation process.

Response: Accepted. The University has complied with the recommendation.

6. Comply with the statute and establish goals for flexible hours positions or seek legislative remedy to statutory requirements.

Findings: The University has not established goals for the number of flexible hour positions that it will make available to its employees. According to statute, the Board of the University shall establish goals for flexible hours positions to be available and shall evaluate the effectiveness and efficiency of the program once the goal of 20% of the positions on campus being available on a flexible hours basis has been reached.

As of June 30, 2003, the University employed 2,232 full and part-time employees. Twelve employees were on a flexible schedule during the spring semester and 200 employees were on a flexible schedule during the summer semester.

University personnel were unaware of the statute directing that goals be established for flexible hours positions.

Response: Accepted. This item will be referred to the Board of Trustees for resolution at the April 26, 2004 Board meeting.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, “The principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make ‘quick purchases’, including but not limited to items available at a discount for a limited period of time.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY03, the University filed two emergency purchases totaling $491,560 for leased space for the fine arts department to occupy during renovation of the Fine Arts Center. The other emergency purchase for $646,903,000 was for 25 premanufactured practice rooms at the temporary location.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time.

Eastern Illinois University indicated that as of July 2003, 43 employees were assigned to locations other than official headquarters.